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Major News Releases and Speeches

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Speeches

U.S. Department of Agriculture • Office of Governmental and Public Affairs

Remarks prepared for delivery by Secretary of Agriculture John R. Block before the National Association of State Departments of Agriculture, Washington, D.C., March 9, 1982

I was particularly pleased about receiving your invitation to meet with you today for a couple of reasons.

First, it's always a pleasure to share the podium with our capable U.S. Trade Representative. I learned very quickly that Bill not only has a thorough understanding of agriculture. . .but more importantly, he understands how essential strong world markets are to the survival of our industry. With that in mind, I know that he's going to be working with us very closely as we go about the business of expanding our position in world trade.

Secondly, I'm happy to be here because I happen to enjoy being part of the offensive team. I like that a lot!

I've told a number of audiences recently that I don't believe this country is going to solve problems by sitting back and expecting the government to give us a free ride to prosperity. Our solution will not be to whimper and whine until someone picks us up. I've said, over and over again, that agriculture will stand up and take the offensive.

Let me tell you something—you are doing just that, and I hope a lot of people take note. You didn't have to come out for this meeting. You could have stayed home and hoped. . .crossed your fingers. . .that Bill Brock and Jack Block would somehow get the job done. But that's not your nature, and that's why you're out here helping us find ways to enhance our export position. We appreciate it. . .we can't do it by ourselves.

Agriculture is on the down side now. We all know that. But none of us are ready to concede that we're going to stay there very long. We're not going to become so over-burdened by our short-term problems that we lose sight of our long-term objective.

We are taking the offensive! We are on the attack! No where is this more obvious than with our plans to build a strong demand overseas. We need to re-establish ourselves as a reliable supplier. Granted, it's

going to take time. No matter how much we talk—the only way the world will be convinced of our reliablity is for us to be reliable.

Our first offense is to target countries where we see the greatest potential for expanding markets. We're sending trade missions (I've been on a few myself) into those countries to lay the groundwork for developing those markets.

Secondly, we are taking a strong offensive against the unfair trade practices of the European Community. We're doing it with more vigor and more determination than the European Community has ever witnessed. We've forged together a team within this administration. . .a team that is bringing about a new effort that has been missing in past administrations.

Another offensive front is being taken with Japan. There's a big market in that country, and there's no reason we can't have a greater share of it. Especially when you consider what we are importing from them.

Although the total value of U.S. agricultural exports will likely be down in this fiscal year, due to low prices, we believe that growth will continue in the years ahead. Keep in mind that export volume is up. But, general trends are upward for most commodities. The major decline is in feed grains, which experienced very sharp growth in the past years.

Now let's take a closer look at Japan. Even though it's our largest single market for farm products, Japan restricts a long list of agricultural items. They recently reviewed a list of 99 non tariff trade barriers and proposed to ease or eliminate many. About a third of these are agricultural, but we are disappointed that no mention was made of the import quotas through which a number of U.S. farm products are restricted.

We'll continue to press Japan for a liberalization of it's import system. We made this point a few days ago in Washington to a visiting delegation made up of members of the Japanese Diet. This followed our mission to Tokyo last October for the same purpose.

We have somewhat different trade problems in Europe. The European community not only administers border restrictions that are damaging to our agricultural trade, but it has also emerged as a net exporter of major agricultural commodities.

If the community could compete with us on an even-handed basis, we would have no complaint. But the fact that Brussels is subsidizing the export of commodities produced at prices higher than the world market means that, in effect, the EC treasury is competing directly with American growers.

In the past year, we have met with the EC three times at the cabinet level, and we will continue to push the Europeans to back off their export expansion plans.

Let's look at Asia. On the whole, that area has become a more dynamic growth market for U.S. farm products than our more historic markets in Europe. Continent for continent, Asia is now a larger market for U.S. agriculture than is Europe, despite some fall-off this year in our exports to Japan, China and other southeast and East Asian countries. The large and growing populations in Asia—together with the economic development taking place in many of those countries—has enormous implications for the agricultural trade of this country.

There are many other areas concerning exports that we could discuss. But the point I want to make is that we are deeply involved in building and protecting our world market. . .we're going to examine the issues on a case-by-case basis. . .and we're going to attack the problem areas repeatedly until we are satisfied with the results.

As I said earlier, we can't do it alone. We need the states and the private sector to become even more aggressive. Many of your states are already playing a substantial role. Right now, about 30 states have overseas offices which were designed, in part, to encourage the export of agricultural products. Many states have supported self-help programs for producers. Some of your states have even joined cooperator organizations—export organizations financed by producers, importers and the government.

Now, let's take a few steps back and look at where we are. We've been talking about one of our offensive actions. . .market expansion. . .that will have a long-term affect on the agricultural economy. I would be remiss, however, if I did not mention a couple important short-term actions—our acreage reduction programs and our attempt to assist in the current cash-flow situation.

Let's talk about cash flow first. Let me stress that the basic financial strength of agriculture is quite strong. The total value of our industry

passed the trillion-dollar mark this year. Our outstanding debt against those assets will approach $200 billion this year. That ratio, from a business perspective, is very favorable.

Of course, right now we have too many individual cases where the ratio is not that favorable. Too many are between that familiar rock and hard spot.

Let me assure you that President Reagan is fully aware of the situation. Just last week, during his news conference, he said, and I quote, "I don't know of any industry that has been harder hit by the cost-price squeeze than the American farmer."

This is the way the president feels. . .and this is why we at the department have his full support as we attack the problem.

Just recently I called in the governor of the Farm Credit System. . .representatives of the Independent Bankers and American Bankers Associations. . .and and I asked them to join with me and the Farmers Home Administration to keep our producers in business. That's just what we are doing. At Farmers Home, our loan-making activity for operating and emergency loans has increased. We can expect this heavy workload to continue through April or May.

Certainly, there will be casualties. . .there always are. . .but if someone is deserving and shows good faith, than we're going to do all we can to keep that person in business. I am convinced that there will be far less casualties if we take the initiative. . .if we go on the attack. We cannot sit back for one moment. We'll get run over the minute that we do.

Now lets talk about the acreage reduction program. Our plans to increase the demand for farm products will take time. In the meantime we need participation in our acreage reduction program to make it work. The producers in many of your states not only have to be convinced that this program will work, but they also have to be persuaded to make it work. This is one area where you, as agricultural leaders, can be very effective. I encourage you to promote the program for what it is. . .a self-help program that could make the difference in the short term.

Self-help is what agriculture has always been about. Given the opportunity, our nation's farmers have always been quite willing to

chart their own destiny. And once it is charted, they are even more willing to fight for it.

I ask for your continued support in that fight. We have a big job to do—we need your help! By combining our efforts—our ingenuity and our hopes—I cannot foresee anything other than success.

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Remarks prepared for delivery by Mary C. Jarratt, Assistant Secretary for Food and Consumers Services, to Grocer Manufacturers of America, National Consumer Affairs Committee, March 11, 1982, Washington, D.C.

My thanks to you, for asking me to meet with this group again this year. It's been an eventful year since we met. Basic elements of President Reagan's economic program are in place. And the President has taken further strong initiatives to build on that foundation toward returning power and flexibility to state and local governments. At the same time, this Administration is working to curb growth of the federal government and make it more accountable to the public it serves.

We are in a time of limited public resources at all levels of government—federal, state and local. While it's a time of change and sometimes difficult adjustments—it's also a time of exciting opportunity to forge new partnerships between public and private sectors.

There are many areas where we share mutual objectives toward serving the public good, particularly in the nutrition field. There are areas where we can work together—where the public and private sectors can complement one another. That will be a major focus of my talk today.

To set the stage for this discussion, let me first give you an overview of where we are and where we're heading in the food and nutrition programs.

We see our feeding programs closely linked to agriculture and farm policy. Producers and consumers are really the two sides of the same coin.

The three agencies reporting to me form the Department's primary links between producers and consumers. The Human Nutrition Information Service conducts research on food consumption patterns and the nutrient content of foods, and develops basic food planning information for consumers. The domestic food programs—food stamps, school lunch and other feeding programs—are administered by the Food and Nutrition Service.

The Department's Consumer Advisor, while reporting to me, deals with the broad range of consumer issues that arise in the various agencies of USDA. Isabel Wolf, who recently assumed that post, is someone you may already know. Her office serves as the focal point for coordinating consumer affairs. And will play an important role in our work on private sector initiatives.

Together these activities account for about two-thirds of the Department of Agriculture budget.

Food Assistance Budget

The giant share is devoted to the food assistance programs. We're working hard to moderate costs through better management and refocusing benefits on those most in need. Still, food programs remain a large and important market for food serving close to 40 million people.

The President's Fiscal Year 1983 budget proposes to make nearly $14.5 billion available for support to various health and nutrition programs and subsidize nearly 90 million meals. The school lunch and food stamp programs will remain the cornerstones of our food assistance efforts. Approximately three-quarters of the $3 billion in proposed budgetary savings are associated with increased targeting and management improvement of the Food Stamp Program.

Food Stamp Spending

Since 1970, food stamp spending has grown at an explosive rate of 16 percent a year, after allowing for inflation. In that time the number of recipients has soared from 7 million to nearly 22 million today. We made a good start on curbing the growth of the program this year. Next year's budget proposes to make several more changes.

In looking at them, it's important to recognize that the food stamp program—as it has grown and changed over the years—has long passed its role as a food assistance program. It is now a major income supplement program. Use of food stamps at the grocery store frees up other money the household would have to spend on food in the absence of food stamps.

Therefore, program changes designed to take into account all sources of income available to the household applying for benefits are justified. These and other amendments would result in better targeting of benefits, while many others would get no reduction at all.

A substantial share of food stamp savings would come from management improvements that will eliminate over a million ineligible recipients and millions of dollars in excess benefits incorrectly approved by welfare offices.

With all that, the Department will still spend $10.4 billion (for the domestic food stamp program and the Puerto Rico nutrition block grant) to provide nutrition assistance for needy families. This is certainly no small sum to provide in food assistance.

To make the most of that aid we're looking at more efficient delivery systems that can eliminate the potential for error and fraud at the front end of the assistance process. There are some exciting developments. New York City, for example, saved over $7 million in six months, using a new automated system to spot fraudulent claims for double food stamp benefits. The city is also experimenting with computer technology to dispense both food stamps and welfare payments through the use of a single magnetically encoded photo-ID card. And on the horizon is computerized technology that could replace food stamps altogether with a single plastic card. It would automatically withdraw from the recipient's food stamp account as food purchases are made. We aim to test the alternatives for such a system in a number of pilot areas before considering wider application.

Child Nutrition Programs

After some necessary reductions in school lunch subsidies to children from the middle and upper income groups in the current fiscal year—reductions which the program is surviving in good health—the 1983 budget retains the school lunch program at $2.3 billion. In fact it

includes an allowance for higher food costs. This will still provide for a federal subsidy to every student receiving a school lunch. The paid category will receive a 22 subsidy while the reduced price lunch will receive a 82 subsidy and the free lunch student gets a $1.22 subsidy. These subsidies multiplied by 23 million lunches served every day reflects our commitment to the school lunch program.

Other smaller child nutrition programs—school breakfast and child care feeding—are slated for a general nutrition grant to states of $500 million. It's the beginning of a new federalism system designed to return decision-making authority to state government.

Similarly the Women, Infants and Children (WIC) program is being returned to state control, as part of a Maternal and Child Health Service block grant. Funding for the entire grant will be nearly $1 billion. Decisions on the best comprehensive health services for low-income pregnant mothers and their infants will become the responsibility of health clinics and qualified health personnel.

Also, the 1983 budget proposes to end federal funding for three programs:

The Summer Feeding Program, which as you know has been riddled with fraud and abuse; The Special Milk Program, which has been superseded by subsidies for milk consumed in other federal meal programs; and The Nutrition Education and Training Program, which should now be left to state discretion.

HNIS Budget

USDA has taken the lead responsibility within government for nutrition research and education. We take that role seriously. The Human Nutrition Information Service (HNIS) was established last year to bring three of USDA's nutrition information functions together into a single agency—the Consumer Nutrition Center, the Human Nutrition Information and Dietary Guidance Staff and the Food and Nutrition Information Center.

For fiscal 1983, HNIS has a budget request of $8 million. This budget will provide for USDA's contribution to the National Nutrition Monitoring System, an active program in nutrition education research and additions to our library collection of human nutrition educational materials.

As you may know, HNIS will also experience it's share of belt tightening. It is necessary for us to tighten our operation and reduce expenditures by eleven percent by Fiscal Year 1983.

At the same time, we're taking steps to target our resources more carefully. Starting October 1, for example, HNIS will begin charging for bulk supplies of publications.

Consumers can still get single copies of publications at no charge.

By making changes like this, we will be able to conserve funds for the important tasks of performing research, and providing nutrition information, technical assistance and training materials.

Now let me bring you up to date on a few of the specific nutrition issues we're dealing with.

Dietary Guidelines

Some of you may recall hearing reports that the Secretary announced the continued publication of the Dietary Guidelines. While we are not rescinding publication of the Dietary Guidelines, we do plan to review and update them as needed once our current supply is exhausted. We are now in the process of activating a Dietary Guidelines Advisory Group. It will include nine scientists both from within and outside the federal government who will review the guidelines based on the best available scientific evidence.

Nutrition Monitoring

USDA is working cooperatively with the Department of Health and Human Services (DHHS) on a National Nutrition Monitoring System. Our major contributions to this system are the Nationwide Food Consumption Survey and the Nutrient Data Bank. HNIS is actively working with DHHS to develop a compatible sampling system by the end of this year, so that the results of our surveys can be analyzed jointly and compared. This will enable us to provide, beginning in 1987, important data on the nutritional health and food consumption patterns of a national sample of the American population.

Voluntary Labeling Initiatives - Sodium

The whole subject of sodium is getting increased attention. This spring we hope to put out a new publication for consumers entitled

"Sodium: Think About It." We developed this in a joint effort with the Food and Drug Administration as part of an aggressive consumer information campaign on the benefits and drawbacks of sodium in foods. As I mentioned to you last year, I believe that food safety, not labeling, is the matter that should be of greatest concern to us. I fully support voluntary labeling, and know that a number of you have begun listing the sodium content of products on the labels. As we continue funding research on sodium and other elements commonly contained in foods, it will be important to assess the implications of the findings and get the food safety information to consumers. This is an area where the private sector can help them make informed choices at the grocery store.

New Initiatives

In recent months the Department has been involved in a number of new initiatives that demonstrate a whole range of the possibilities for cooperative effort by the public and private sectors.

Just getting underway is a Healthy Mothers/Healthy Babies Campaign to focus on the importance of good health during pregnancy, to help reduce infant mortality. It's an effort in which we're cooperating with the Department of Health and Human Services and such private voluntary and professional groups as the March of Dimes, the American College of Obstetricians and Gynecologists, the Academy of Pediatrics, and the PTA to share information and cooperate in the development of materials. Pamphlets, flyers and media messages will be aimed at women of child-bearing age as well as at health professionals.

Finding cost-effective ways to do that is a challenge. One way is through a video teleconference, which will allow us to communicate by satellite with extension specialists, public health nurses and other professionals in all 50 states. That's a good start, but to be successful the campaign will need a hand from the private sector.

Business organizations can and are pitching in to help underwrite the costs of materials developed by public and voluntary agencies.

Similar opportunities exist in other programs.

The Dairy Council recently asked to reprint and distribute nationally some technical assistance materials entitled "Making the Most of Your School Lunch Dollars" which were developed by a joint federal-state

force in New England. Incidentally, you don't need our permission to reproduce materials developed by the federal government. It's all in the public domain, but of course it helps for us to know, so we can coordinate and encourage others to follow suit.

Just recently we signed an agreement with the American Red Cross to develop a nutrition course—much like their other widely-used courses in water safety, first aid and home nursing. Red Cross will provide funding and staff support and the Department will provide technical and scientific assistance. Ultimately the course will be taught nationwide in 3,000 local chapters. You could be instrumental in getting it started in your town.

You've all heard a lot about our efforts to distribute surplus cheese to needy families across the country. As you can imagine it's been a massive job to handle the 40 million pounds states have ordered since the President's announcement on December 22. For the most part, it's been a remarkably smooth operation. A major reason for that has ben the incredible outpouring of help from private organizations, businesses and individuals. In Nevada, for example, state officials were determined to get their first deliveries of cheese to needy people in outlying areas by Christmas. Five dairy distributors volunteered the drivers and trucks to get the job done. For some it meant working on Christmas Eve.

It's dramatic proof that our country's sense of voluntarism is still alive and well. It will play an increasingly important role as control and responsibility for public policy decisions shift back to state and local government.

You're going to see a lot more creativity and innovation to achieve efficient operation of food and nutrition programs. I hope that you and your companies will be on the lookout for ways you can support these efforts.

Opportunities abound. State and local welfare agencies will continue to need help transporting cheese across town or across the state until the special distribution program ends sometime this summer. Schools and day care centers often need assistance with nutrition education, and advice on counsel on food service management. And many are glad to get food that can't be moved in commercial channels. That, of course goes for food banks, too. If your town doesn't have a food bank, you might give thought to helping local voluntary groups set one up.

These are just a few of the possibilities. To explore this further, our Food and Nutrition Service regional offices will be glad to put you in touch with the people who run food programs in state and local governments.

At the national level, it's important that we continue this dialogue.

We've made some important strides, I think, toward a closer working partnership with the private sector. You and your organizations have much to contribute. We look forward to a long and productive association with you.

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Remarks prepared for delivery by Secretary of Agriculture John R. Block before the National Newspaper Association Conference, Washington, D.C., March 12, 1982

I'm glad to be with you, to have this opportunity to talk about some of the problems, opportunities and challenges that agriculture will be facing in the months and years ahead.

I'm not going to be giving you a lot of statistics. . .dollar signs and decimal points. I'm sure you don't want that any more than I want to spend the time—and I'm certain your readers would echo our feelings.

Instead, today I'd like to present an overview of the current agricultural situation. . .zero in on a couple particulars. . .and perhaps add a new perspective to your view of our industry.

I know that as newspaper folks, you don't need me to tell you about perspectives. You deal with them every day. You're the ones who have to put three-dimensional words on a flat sheet of newsprint. It is your task to take the complicated and make it understandable—to take the incomprehensible and turn it into something that your readers can identify with.

I imagine this presents quite a challenge when you get into the subject of federal spending—when we talk about millions. . .and billions . . .and even trillions of dollars. Do your readers really know what those figures mean?

I don't! I don't think you do either. We are at a point where federal spending doesn't really mean anything to us in dollars and cents. We can visualize the money it takes to buy groceries. . .or a new car. . .or even a new house. We know how many years it will take to finance some of these things, and how much of our income it will take.

But we cannot visualize federal spending. . .it is beyond our imaginations. . .and so our alternative is to rely on what others tell us about it. What we all know, however, is that it is too much spending—even with the budget reductions already achieved.

Look at it this way: Those of you who have a wristwatch. . .take a moment to glance down at it and count off the seconds passing by. Do you realize that with the passing of each second, the federal government is spending $24,000?

Of course, the figure is going to look big regardless of what we do about it—because federal spending will always be in the billions of dollars. The only difference is that at last we are putting a harness on it.

That's difficult in itself. . .since it has been running free for 40 years. But we're doing it, and we'll talk more about that later. Right now, I want to concentrate on agriculture.

We all know that Americans eat more. . .eat better quality. . .and pay less for it than anyone else in the world. And there's only one reason why Americans have more, better and cheaper food—because it's grown, processed and distributed in the most efficient agricultural system that this world has ever seen. If an American were to sit down at the dinner table. . .and find nothing there. . .that's when he could honestly claim that he was living in a recession. I say that because it would also mean that agriculture would not be providing 20 percent of our Gross National Product. . .23 million jobs. . .and one of the few plus sides to our trade balance with other nations.

Now another perspective! Our producers, those who rely strictly upon what they produce for income, have historically failed to participate in the prosperity they created for the rest of this nation. Partly because we're in a high-risk business—we face obstacles we have no control over. This we can accept!

But what we can't accept—what we will not take sitting down—are those obstacles that can be controlled. . .those man-created intrusions that have caused so much hardship.

The state of the agricultural economy today was created by man. Nature didn't create inflation. . .nor high interest rates. . .nor regulations. . .nor tax upon tax upon tax. Man created those enemies, and even then it took him 40 years to get the job done. And all that time, we let it happen! We didn't see the gigantic wasp coming, but we felt the sting and it's hurting! So what do we do?

Well—I think we've all learned from history that the solution is not to sit back and hope that the government—already too big—will lead us up that golden path to prosperity. Our solution will not be to whimper. . .and whine. . .and groan until someone comes along and picks us up. In this period of budget cuts, we're going to hear some of the whimpering (weaning always begets crying) but you won't hear them coming from agriculture.

Remember—$24,000 per second? I don't care if it's $24 million. . .prosperity can't be bought by throwing government money at a problem. We can look at the dairy industry today to see what happens when we tackle a problem with government money. What a monster we have with our dairy program. Right now we have more than a billion and a half pounds of surplus, getting older, some near the point of spoiling!

Even with the revisions that we squeezed through Congress, production continues to increase and our warehouses are filling up faster. You have to know something is wrong when you can't give it away fast enough.

Well, we're working to straighten that out, and we aren't going to let it happen to the rest of agriculture. That's why we're going to the attack. . .take the offensive. . .and we're going to win! Now let's take a look at our major targets:

We are attacking low prices caused by over-supply!

This is one area where we can all work together . . .and I encourage you to take a very close look at what we are doing.

Recently I initiated reduced acreage programs for several of our commodities, and I am strongly urging farmers across the country to participate. In fact, we need the participation to make our program work.

Let me make it clear, though, that I am not generally in favor of production cutbacks—I don't believe in them over the long haul—but

we need them on a short-term basis to bring our supply and demand back into line.

I've heard some people say that the program won't work. . .that farmers won't participate . . .that the program doesn't provide enough incentive.

I'll be blunt, this program was never intended to provide a bonanza. We don't have the money for that! But it is designed to bring supply down. . .and our prices up.

I'm proud that we've gotten some good reviews on this program. I was particularly pleased to receive support from several marketing publications. One such publication said: "We have enough faith in farmers to believe they will give the new program serious consideration. Economic conditions demand it." Another publication stated that those who are making an open-minded analysis are finding the programs attractive.

You can be extremely helpful in giving the farmers the information they need to make their decisions. I'm not suggesting that you to go back and write editorials. . .telling farmers they should participate. But I do encourage you to have your reporters check out the programs. . .write objective material on it. . .and I think the programs will speak for themselves. In fact, when you see the potential benefits—you might even be inclined to voice your opinions.

Another of our offensives is to build a strong demand!

Cutting back on production will help, but the real solution is to sell our products. . .sell them domestically and sell them internationally. We need to re-establish ourselves as a reliable supplier. This is going to take time, regardless of how much we talk about our intentions. The only way the world will be convinced of our reliability is for us to be reliable. And we're going to do that!

Our first offense is to target countries where we see the greatest potential for expanding markets. We're sending trade missions (I've been on a few myself) into those countries to lay the groundwork for developing those markets.

Secondly, we are taking a strong offensive against the unfair trade practices of the European Community. We're doing it with more vigor and more determination than the European Community has ever witnessed. We've forged together a team within this

administration. . .a team that is bringing about a new effort that has been missing in past administrations.

Another offensive front is being taken with Japan. There's a big market in that country, and there's no reason we can't have a greater share of it. Especially when you consider what we are importing from them. We're not going to let up until we get the job done.

We are taking the offensive on the financial crisis!

This is a major concern to many of your agri-business readers. I'm talking about cashflow. . .credit. . .the cost of money!

First, let me stress that the basic financial strength of agriculture is quite strong. The total value of our industry passed the trillion-dollar mark this year. Our outstanding debt against those assets will approach $200 billion this year. That's a favorable ratio, from a business perspective.

Of course, that's paper talk. Remember—we don't understand billions and trillions. Right now we have too many individual cases where the ratio is not that favorable.

Let me assure you that President Reagan is fully aware of this situation. During a recent news conference, he said (and I quote): "I don't know of any industry that has been harder hit by the cost-price squeeze than the American farmer."

This is the way the President feels. . .and this is why we at the Department have his full support as we attack the problem. Consequently, I called in the governor of the Farm Credit System. . .representatives of the Independent Bankers and American Bankers Associations. . .and I asked them to join me and the Farmers Home Administration to keep our producers in business. That's just what we are doing. At Farmers Home, our loan-making activity for operating and emergency loans has increased. We can expect this heavy workload to continue through April or May.

Yes, there will be casualties. . .there always are . . .but if someone is deserving and shows good faith, then we're going to do all we can to help him. I'm convinced that there will be far less casualties if we take the initiative . . .if we go on the attack. We can't sit back for a moment. We'll get run over the minute that we do.

President Reagan is also on the attack!

He has to be given the time to do the things that are necessary. Let me tell you, what the President is trying to do makes common sense.

It makes sense to cut taxes rather than to increase them! We've tried over-taxation and it failed. We have to give this new alternative a chance to work.

It makes sense to cut regulations! They've strangled us too long. We all know that.

It makes sense to cut government spending! It hasn't bought anything for us other than a debt that escapes even my imagination.

And it makes sense that it's going to take longer than just a few months to get this country out of the mess that has been building for decades.

The spirit that we all witnessed in November, 1980 excited me. . .and we have to keep it alive. I didn't see it as a Republican spirit or a Democratic spirit. It was a revitalized American spirit that wanted to change the direction of this country.

You have a great power within your industry. . .and you have a keen perspective of things that are happening. Now, more than ever before, this country needs your help. It needs your optimism. . .your encouragement. . .and it needs you to nudge it on the shoulder once in awhile to keep this new spirit and new hope alive.

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Testimony

U.S. Department of Agriculture • Office of Governmental and Public Affairs

Statement by Secretary of Agriculture John R. Block before the Senate Committee on Budget, March 8, 1982

Mr. Chairman and Committee members, it is a pleasure to appear here today. This testimony covers several topics related to agriculture. These include: (1) the overall outlook for the agricultural economy, (2) the effects of fiscal and monetary policies on the agricultural sector, and (3) highlights of the department's budget request.

The Overall Outlook For The Agricultural Economy

It is important to recognize agriculture's important role in the general economy. Broadly defined, agriculture is the nation's largest industry, with assets equal to about 88 percent of the capital assets of all U.S. manufacturing corporations. Agriculture also is the nation's largest employer. Economic activity in the U.S. food and fiber system requires the services of more than 23 million people, or about 22 percent of the labor force. Farming alone requires 3.7 million workers—as many as the combined workforce of the transportation, steel and automobile industries. One out of every five jobs in private enterprise is related to American agriculture.

Agriculture's impact on the entire economy is also significant. The value added to farm products as they flow through the economic system amounts to about 20 percent of the gross national product. Agricultural output has increased more than 70 percent since 1950, while total input use increased less than 4 percent. Today each farmer provides food and fiber for 60 Americans as well as a growing number of foreign customers; 60 years ago, one farmer supplied only 10 Americans with food. It is important to remember that few resources are as important as agriculture to the economic strength of the country.

The economic condition of the farm sector is obviously a vital concern. U.S. agriculture faces difficult financial conditions this year. The current agricultural outlook can be summarized as one of large supplies facing weak demand, resulting in a continued cost-price squeeze. Net cash income from farming in 1981 was about 18 percent

below the 1979 peak and further declines are possible in 1982—although it is too early to say for sure.

Record U.S. and world crop production, large livestock output and weak demand in the U.S. and abroad are combining to hold down farm receipts. The large volume of products being marketed from the bumper 1981 harvest is keeping farm prices too low and limiting increases in crop receipts. This pattern is likely to continue at least through mid-1982. The current recession is dampening increases in livestock prices, but we expect some strengthening as the economy recovers later this year. Growth in domestic consumption of agricultural products in 1982 will likely be limited to less than 1.5 percent due to stagnating per capita incomes, growing unemployment and high interest rates.

U.S. agriculture has become more dependent upon world markets and consequently more vulnerable to fluctuations in the world marketplace. Worldwide economic growth also has been poor. Global real economic growth in 1981 lagged at 2.1 percent and growth prospects for 1982 are forecast at under 3 percent. Growth at these rates leaves little, if any, margin for improvements in per capita incomes. By comparison, world economic growth in the 1960's and 1970's averaged 4-5 percent annually. The current global slowdown has resulted in weakened demand for agricultural products in general, and imported U.S. farm products in particular. Also affecting our exports is the high level of foreign agricultural production and the substantial rise in the value of the U.S. dollar. U.S. exports now cost foreign buyers about 30 percent more than a year ago.

It is difficult to forecast exactly what net cash income or net farm income will be in 1982—much depends on this summer's crop which is not even planted yet. Other uncertainties about world weather patterns and economic conditions will influence the outcome. It should be realized that net farm income statistics are extremely sensitive to small changes in farm prices and costs. For example, a 1 percent change in the forecast of average prices received by farmers in 1982 would change cash receipts by about $1.5 billion and result in a 10 percent change in net farm income. Similarly, a 1 percent change in production expenses would also result in about a 10 percent change in the opposite direction

in net farm income. For these reasons, any estimate of net farm income made this early in the year is highly tentative.

The farm sector is not homogeneous and broad generalizations do not adequately describe economic conditions for all farmers. There are wide income variations according to commodity produced, region, size and tenure of operators. Well-established farmers with a large equity base are better able to withstand short-term declines in income than are new entrants to farming or farmers with large debts financed at high interest rates. While the farm debt-income ratio has doubled over the last two years and some farmers are overextended, the farm sector still has a relatively low overall debt-equity ratio of 16 to 17 percent and has a substantial per-farm equity base.

The Agriculture and Food Act of 1981 provides authority for programs and the operational latitude to protect American agriculture from market volatility, but the legislation is not a complete answer for all problems facing American farmers today. The single most important method for improving economic conditions in the agricultural sector is to get the general economy moving again. The longterm solution is sustained, non-inflationary economic growth with lower interest rates.

While the slowdown in world demand in the face of record supplies has led to a sharp build up in grain stocks, the current stocks-use ratio on a global scale is slightly under 15 percent compared with around 20 percent in the late 1960's. This suggests that as economic activity recovers, shifting demand conditions could bring about a sharp recovery in prices.

The Effects Of Fiscal And Monetary Policies On The Agricultural Sector

Mr. Chairman, as I have indicated, economic conditions in the agricultural sector are dependent on the performance of the U.S. and world economies. To the extent that fiscal and monetary policies affect these economies, then they will affect U.S. agriculture. As you know, economists have differing opinions regarding the economic impact of various policies. Thus, there are differing opinions as to the specific impact of fiscal and monetary policies on agriculture.

Our fiscal policy is based on reducing taxes to stimulate savings and investment, which in turn will lead to a higher sustainable economic

growth rate. The strongest direct effect of economic growth is on the demand for livestock products, particularly meat. Reflecting very little growth in real per capita disposable consumer incomes for the past two years, livestock prices and receipts have not risen substantially since 1979. Stronger demand for livestock leads to stronger demand—and higher prices—for feedstuffs, grains and high protein feeds. Economic growth also increases demand for other farm products, although the impact is not as strong as in the livestock sector.

Policies that stimulate strong economic growth will lead to higher net farm income. By the end of 1984, we expect growth in consumer incomes to lead to about $15 billion dollars more in consumer expenditures on food and beverages. This increase is expected to translate into an additional $3 to $5 billion in net farm income. Also, because of the tax cuts, farmers will have more disposable income. This is important because it represents more money available either for consumption or additional investment.

Our fiscal policies also call for accelerated depreciation allowances. This will increase farm sector cash flow while increased private savings will put downward pressure on interest rates. A 1 percent decline in the interest rate on the outstanding farm debt reduces farm outlays by $2 billion. Both accelerated depreciation and lower interest rates will stimulate agricultural investment. While increases in farm productivity continue to outpace those of the non-farm sector, the rate of increase has been slowing. Agricultural investment has been weak since 1979, largely due to low net farm income and high interest rates. Continued growth in farm productivity is important because it will allow us to satisfy a growing demand without additional inflationary pressures. With increased productivity growth, U.S. agriculture will become more competitive in world markets. Furthermore, for every $1 billion dollars in additional exports we add another 35,000 jobs throughout the economy and generate more than $1 million in additional business activity. Thus, fiscal policies to stimulate savings and investment are as important to the agricultural sector as they are to the economy as a whole.

Increases in farmers' production costs are closely tied to the general inflation rate. Slower money growth has caused a decline in the inflation rate and will reduce the rise in farm production expenses this

year to about 4 to 6 percent—the smallest increase since 1975. A major part of the President's economic recovery program is his commitment to a more stable growth in the money supply. Although reducing inflation through monetary restraint may be a somewhat painful process in the short run, farmers will benefit from lower increases in non-interest costs. If tight money keeps inflation low during the recovery, then farm income will rise substantially as cash receipts move up and lead to a more sustainable prosperity.

Highlights Of USDA's Budget Request

Our January budget proposal for fiscal year 1983 totaled $23.5 billion in outlays. The total value of programs and services provided by the department in fiscal year 1983 were estimated at $45.4 billion. We believe that the programs of the department will continue to make a major contribution to the viability of the agricultural community and the well-being of all Americans.

We must continue our joint efforts to reduce the growth of federal spending. As such, program levels in almost every area of the department are reduced from 1982 levels. However, in most cases, we can minimize the effects by better targeting and management of our program efforts. Even with these overall reductions, we have provided for increases in a few high priority areas.

— Research and Extension. We continue to regard agricultural research as a very high priority. We are requesting an increase of $54 million for agricultural research in fiscal year 1983.

— Agricultural Exports. The administration also places a very high priority on expanding our agricultural exports. We are requesting an increase of $4 million for our foreign market development programs, and funds to offset inflation in our other overseas activities. We propose to continue the export credit guarantee program and P.L. 480 program at about the same levels as this year.

— Crop Insurance. We are moving aggressively to expand the all-risk crop insurance program. In crop year 1983, we hope to cover between 40 and 50 percent of insurable acreage.

— Soil and Water Conservation. In this area, we are proposing a substantial reordering of priorities and fundamental program changes.

Improved effectiveness is expected as a result of the increased use of "targeting" of efforts to areas with critical resource problems.

— Rural Credit. Farm loans will continue at almost $4 billion each year in fiscal years 1982 and 1983, with increased emphasis on farm operating loans. We are proposing that farm operating loans be increased by $135 million for fiscal year 1983. Rural housing loans will decrease to $1.1 billion in fiscal year 1983 with assistance focused on low income families.

— Domestic Feeding Programs. Through better management and various legislative proposals, we can reduce funding for the food stamp program by $1.7 billion in fiscal year 1983. The child nutrition programs will operate at $2.8 billion, the same level as in fiscal year 1982. A number of other programs—for example, the women, infants and children (WIC) program—will be transferred to the Department of Health and Human Services.

— Marketing and Inspection. A thorough assessment in this area identified a number of programs which are no longer economically justified. We also plan to improve the efficiency of our meat and poultry inspection activities.

— Commodity Credit Corporation. Last Friday, the Office of Management and Budget informed this committee of the department's revised Commodity Credit Corporation outlays estimates for fiscal years 1982 and 1983.

The new estimates are up considerably over those reported in the president's January budget. However, the CCC commodity programs are doing exactly what they were designed to do—provide price and income protection to farmers during periods of low market prices. Despite our general support for these programs, I am concerned about the cost of the dairy price support program. We are working to find ways to bring supply under control and reduce the program's costs.

We are now projecting CCC net outlays at $10.5 billion for fiscal year 1982 and $6.8 billion for fiscal year 1983. The major reason for the increases is that we have much larger crops and dairy supplies than previously anticipated. Production of the 1981 U.S. crops was up more than 15 percent from the 1980 levels and, as I indicated earlier, demand for agricultural products here and abroad is sluggish.

Mr. Chairman, that concludes my formal statement. I realize the outlook for agriculture is not now a particularly bright one. I realize this budget is an austere one. However, I believe the administration's economic and fiscal policies, given the chance to work, will get America back on the road to prosperity. I look forward to working with you to achieve that goal.

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Statement by Secretary of Agriculture John R. Block before the House Committee on Education and Labor, March 8, 1982

Mr. Chairman, Mr. Ashbrook, Mr. Goodling and members of the Committee, thank you for giving me the opportunity to appear before you today to discuss the Fiscal Year 1983 budget and legislative proposals for the programs conducted by the Food and Nutrition Service of the Department of Agriculture

Accompanying me are Assistant Secretary Mary Jarratt and Gene Dickey, until today our Acting Food and Nutrition Service Administrator. Also with us is Mr. Samuel Cornelius, who assumes the position of FNS Administrator today.

The President's Program For Economic Recovery

The budget that I will discuss with you today underscores the Program for Economic Recovery that President Reagan announced a year ago. The plan is directed toward creating a solid foundation for sustained economic growth and prosperity by limiting the size and scope of government, strengthening the private sector and free market economy and reducing inflation and interest rates.

This February, in his budget message to the Congress, the President reiterated his determination and firm adherence to the four fundamental parts of his economic recovery plan: (1) a substantial reduction in the growth of Federal expenditures; (2) a significant reduction in Federal taxes; (3) prudent relief of Federal regulatory burdens; and (4) a monetary policy on the part of the independent Federal Reserve System that is consistent with these policies.

During 1981, the Administration worked with the Congress to take major steps toward implementing this program:

— Congress passed the Economic Recovery Tax Act, the largest tax cut in history for businesses and individuals.

— In the Omnibus Budget Reconciliation Act, Congress reformed entitlement and other programs, saving $130 billion over the 1982-1984 period.

During the past months, we have worked to carry out the provisions of the Omnibus Budget Reconciliation Act of 1981. This legislation—among other initiatives—refined eligibility standards to more specifically target food assistance benefits to the needy while generally holding constant the assistance given to those who are needy.

Child Nutrition Programs

During the past decade, the Federal Child Nutrition Programs have grown dramatically. They are often described as fragmented, overlapping and administratively complex. Today, there are at least 37 different Federal reimbursement schemes within ten major programs, serving more than 26 million children. The programs typify the concerns raised recently in a report by the Advisory Commission on Intergovernmental Relations (ACIR). ACIR concludes that State and local governments have become increasingly dependent on the Federal government. This dependence has curtailed vital administrative discretion at the State and local level because of an excess of specific Federal programmatic and procedural requirements. The Administration's Fiscal Year 1983 Child Nutrition proposals are the beginning of a new federalism designed to reestablish the balance of decisionmaking in our tripartite system of governance. First, and of central importance to your Committee, the proposal would maintain the School Lunch Program, the largest Child Nutrition Program at $2.3 billion, with no reduction in Federal support. This Committee has long fulfilled a leading stewardship role for the School Lunch Program and we appreciate your counsel and your concern for providing stability for the School Lunch Program. Second, the proposals would consolidate a number of small categorical Programs. Funding for a general nutrition assistance grant is set at nearly $500 million. Thus, total funding for the

basic Child Nutrition Programs remains unchanged from the 1982 funding level of $2.8 billion.

The Supplemental Food Programs for Women, Infants and Children (WIC) is similarly delegated to the States through its combination with the Maternal and Child Health Services block grant. Funding for this grant will be $1.0 billion. The determination of how to appropriately target health and nutrition services for low-income pregnant mothers and their infants will be the responsibility of the various states and their health clinics and qualified health personnel.

Proposed Legislation

The Administration's proposed legislation is based on several related considerations. These include reducing program overlap, focusing resources on those most in need and promoting efficient program operations. A total of $3.2 billion will be needed for the child nutrition programs in Fiscal Year 1983. These amounts reflect $363.0 million in cost reductions below the current services level as a result of the following proposals:

1. Eliminate the Department of Defense overseas schools from participation in the programs. We believe that it is feasible and appropriate for the Department of Defense to assume full responsibility for child nutrition in its overseas schools.

2. Transfer of funding for all food assistance program operations in Guam, the Commonwealth of the Northern Marianas, American Samoa and the Virgin Islands to a block grant that will give the territories broad flexibility to fashion food assistance programs that serve the special needs of their residents.

3. End the Summer Feeding Program. The short-term nature of the Summer Feeding Program makes it inherently vulnerable to poor management and abuse. With the availability of other Federal nutrition assistance programs (such as food stamps, which was not a national program when the summer program began), the Summer Feeding Program is now a low-priority effort. In recent years, the summer programs have been concentrated in a few

large, urban States where repeated abuses have been cited by GAO and the USDA Inspector General.

4. Terminate the Special Milk Program for the 1982-1983 school year. Every President since John Kennedy has proposed major reduction or elimination of the Special Milk Program. At present, nearly 94% of the 1.6 million students receiving special milk subsidies are non-needy. These students receive a subsidy of 9 cents per half-pint of milk in the 1981-1982 school year regardless of their family income. The program's original goal, to promote fluid milk consumption in schools, has been superseded by the subsidies for milk consumed in other Federal meal programs in which over $700 million in milk will be served this year. The $24 million now anticipated to be spent on special milk in 1982 will have a negligible effect on milk consumption in the United States.

5. Lower State Administrative Expenses (SAE) to reflect the institution of the grant for General Nutrition Assistance and the elimination of the Special Milk Program.

6. Establish a General Nutrition Assistance Grant in place of the categorical funding for the School Breakfast and Child Care Food Programs. We believe that funding individual meal subsidies for School Breakfast and Child Care Food Programs is an inappropriate federal role and we believe that the Federal position of nutrition program design and administration is inappropriate. Under the grant concept proposed by the Administration, States may allocate nutrition funds to schools and other institutions according to State and local priorities. They could design and implement child nutrition programs that best serve the needs of their populations; they could set their own priorities and allocate their resources to meet these priorities. More than 40 pages of program regulations and requirements would be eliminated.

7. Eliminate nutrition education activities under the NET Program at the federal level and leave this activity to State and local discretion. Federal funding has served as a catalyst and the States

should be in a position to assume this responsibility, if they so desire.

8. Establish a single block grant for services to Women, Infants, and Children. The Special Supplemental Program for Women, Infants and Children, the Commodity Supplemental Feeding Program and the Maternal and Child Health Program at HHS each serves the same target population—low income pregnant, postpartum and breastfeeding women, infants and children. The programs also share the same goals to foster growth and development, prevent health problems and improve the status of the health of their participants.

The Fiscal Year 1983 budget proposes to fold the funding for these programs into a $1 billion grant to States for services to women, infants and children to be administered by the Department of Health and Human Services.

The new consolidated grant would allow the States the flexibility to determine the mixture of health care and supplemental food that would best serve the needs of their population. It would enable the States to plan and coordinate their own maternal and child health service programs, establish their own priorities and exercise control over the resources provided so that local expenses would be reduced.

The changes represented in this budget reflect several primary objectives which we believe are necessary to the future wellbeing of the Nation. First, the effectiveness of State and local governments will be enhanced by giving them greater control over services as well as control over the resources needed to pay for them. Second, the reform of entitlement programs to correspond with basic indicators of need and cost will be advanced. Greater latitude will create opportunities for the reduction of inequities, the elimination of overlapping and excessive benefits, the retargeting of resources to those most in need and the creation of incentives and requirements to promote more efficient program administration. Third, the reduction of inappropriate discretionary spending will be achieved, contributing to a firmer and more judicious control over Federal expenditures. We believe that

these objectives are immensely important and it is in this positive context that the 1983 proposals should be considered.

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Statement by Secretary of Agriculture John R. Block before the House Committee on Agriculture, March 9, 1982

Mr. Chairman, I am pleased to meet with the committee to discuss what is being done to expand U.S. agricultural exports.

The administration shares your appreciation of the pressing need to export more agricultural products, not only for the benefit of the farm community, but for the U.S. national economy as well.

We appreciate the support that this and other committees of Congress have given to export expansion. We appreciate also the individual efforts of those members who joined in presenting a united front against unfair trade practices to officials of the European Community and against unfair trade barriers to officials of Japan.

This broad support is especially welcome at a time when world economic and supply factors and increased competition are inhibiting export growth and putting downward pressure on farm prices.

We in the department, with full administration support, are making an intensive effort to overcome the obstacles to export growth and we welcome your interest and your counsel.

As you know, substantial, sustainable export growth is essentially a long-term proposition. Sudden, dramatic gains are rare. They are the product of unusual circumstances such as the world crop shortfalls of the 1970's, or—going back in history—the relief shipments of the mid 1940's and mid 1960's.

President Reagan's lifting of the embargo on agricultural sales to the Soviet Union last April was a definite stimulus to exports.

That decision on behalf of American agriculture and the subsequent one-year extension of the grain sales agreement, opened the gate for sales to the Soviets of about 14 million tons of wheat and corn, 700,000 tons of soybeans and lesser amounts of other U.S. agricultural products since the embargo was lifted.

That is business that we vitally need. Unfortunately, it was preceded by heavy costs in lost farm income, erosion of confidence in the United States as a supplier and increased competition in world markets that was caused by the embargo that the president revoked.

The campaign to expand the export momentum has three primary thrusts: (1) direct personal approaches to new markets; (2) pinpoint market development planning and execution, and (3) a concerted, governmentwide effort to remove barriers to trade with U.S. agriculture's two largest customers, The European Community and Japan.

USDA studies show that the increase in competition since the embargo was invoked in 1980 may be the principal factor limiting our exports of primary commodities this year.

We are making a major effort to meet the competition head on. We are well into a campaign to increase exports of grains and oilseeds by targeting for intensive market development emerging markets with identified growth potential and a strong competitor presence.

As a first step, we send a joint government/industry team to the target country. The team's job is to identify the import wants and needs and the problems of trade in that country and find out what can be done to help them increase their imports of U.S. commodities.

Thus far, we have sent these market development teams, each of which includes producer representation, to 12 countries in Africa, Latin America, and the Far East. I have made three market expansion trips myself, including a joint mission with Secretary of Commerce Baldrige to West Africa. Deputy Assistant Secretary of Commerce Joe Dennin will discuss that mission for the committee.

Almost without exception, the reaction of host country government and trade officials with whom the teams have met has been positive; their hosts have been pleased—and in most cases surprised—that the U.S. government and the private agricultural sector are teaming up to better serve their import needs.

Already there have been positive results. In China, for example, agreement was reached for U.S. wheat, feed grains and soybeans market development cooperators to open offices. Plans also are underway for the construction in Beijing of a pilot flour mill and a demonstration noodle plant.

Elsewhere, during team visits a P.L. 480 agreement for wheat sales to Morocco was signed and export credit guarantees to Brazil were increased.

The real proof of this team approach will lie, of course, in the follow up, market by market, to the initial contacts. We are doing that and we are confident that the result will be better trade servicing and credit and other aids tailored more specifically to growth potential as a consequence of better understanding of the market and more precise market development planning.

With the constraints that the economic climate has placed on government resources, planning has become more than ever the key to success in market development. To get the most from what we have, it is absolutely necessary to know what countries and what commodities offer the best potential and what tools will do the best job.

Over the past 12 months, the department has—in its Foreign Agricultural Service—developed a planning system to answer those questions in a quantifiable way.

Very briefly, it works this way: using computer technology and with extensive participation by market development cooperators, we are able to select export commodities by country, pinpoint the constraints to export growth of each and identify the best course to take to increase sales. From there, we are able to project in dollar terms the results we could expect from each investment of market development time and money.

As most of you know, our market development cooperators are nonprofit agricultural producer and trade groups organized along commodity lines to expand export markets for their particular commodity. Their work is supervised by the Foreign Agricultural Service and funding is shared. These groups have been a mainstay of the USDA market development effort for 25 years and we currently have joint projects with 54 cooperators working in more than 80 countries.

Under the new planning system, commodity and marketing specialists from government, the private trade and the cooperator associations work together to analyze the constraints to export growth of U.S. commodities in each foreign market. Credit needs, market

access and other problems are analyzed and assessment is made of market development activities that could overcome the constraints.

The result is a package of impediments to export growth and ways to overcome them. From these we can rank by priority the markets and activities on which to focus our resources—personnel, trade barrier removal, direct market development activities and credit.

We also are paying special attention to increasing exports of value-added products, encouraging private industry to participate, with help from state departments of agriculture. Expanding this business, now worth $12-$13 billion a year, would create processing and related jobs and add to U.S. agricultural export earnings.

Credit, both short and long-term, has been important to agricultural market development since P.L. 480—the Agricultural Trade Development and Assistance Act—became law in 1954, accounting for around a third of U.S. agricultural exports for several years after that.

P.L. 480 was a substantial factor in the development of U.S. markets that today are worth more than a billion dollars—Korea and Taiwan are two examples. Today, less than 5 percent of U.S. exports are made on concessional terms, but credit continues important to the movement of U.S. commodities and to export development.

As you know, the president last year authorized an increase of $500 million in authorizations for the Commodity Credit Corporation GSM 102 program of short-term export credit guarantees spread over fiscal years 1981 and 1982. We have moved as quickly as possible to make full use of the total authorization of $2.5 billion for this fiscal year.

Credit guarantees last month covering a wide range of commodities for shipment to Portugal, Indonesia, Nigeria and Uruguay brought the commitments for the current year to $.8 billion. We plan to commit the full amount as soon as possible.

The Congress made almost $700 million available for P.L. 480 concessional sales this year and almost the full value has been allocated; a minimum reserve is held for unforseen needs. We recognize the long-term market development value of P.L. 480 assistance, but we are exploring ways to provide some more immediate returns to U.S. agriculture from these investments.

For the first time, a P.L. 480 agreement—the one signed with Egypt last month—was accompanied by a letter of intent from the recipient

government assuring that a fair share of its commercial imports would come from the United States.

We are studying the possibility of applying similar assurances to our technical and scientific assistance programs in developing countries.

One of the effects of the downturn in world economic growth has been to exacerbate protectionism and other trade-disruptive tendencies among some of our trading partners, making effective trade policy more than ever necessary to export expansion.

These tendencies have been increasingly apparent in the policies of the European Community. We are especially concerned about an excessive and growing use by the EC of export subsidies and threats to access to the EC market for U.S. export commodities.

There is no question but what the EC use of subsidies, provided through the Common Agricultural Policy, has hurt U.S. agriculture. The subsidies interfere with U.S. trade in other countries and put downward pressure on U.S. prices. USDA analysis indicated, for example, that increased EC exports of subsidized wheat cost U.S. producers 50 cents a bushel on their wheat crop last year, a loss in net income of $1.7 billion.

The aggressive EC use of subsidies is not confined to grains. The EC has moved from a substantial importer to a significant exporter of a number of major agricultural products, largely through the use of subsidies. These include beef and veal, wheat, sugar and poultry meat.

The United States also is concerned about access to the EC market itself for many products, which are protected by variable import levies and other devices.

The most pressing concerns in terms of potential cost in U.S. exports are EC discussions of an internal tax on vegetable oils, which would threaten a U.S. market worth over $3 billion for soybeans and soybean products, and talk of impeding access for nongrain feed ingredients, a market worth about $700 million yearly.

The decision was made early in this administration that the United States would no longer tolerate what we consider the unfair trade practices of the EC.

It was recognized that the "tut-tut," fragmented approach of the past, in which U.S. industrial interests were likely to go one way and agriculture another, did not work.

To focus these efforts, USDA took the lead in developing a comprehensive interdepartmental strategy for U.S.-EC trade relations. This plan was approved at the cabinet level and for the first time the United States is taking a unified, governmentwide approach to the problems of agricultural trade with the European Community.

Since last spring, our message on trade policy has been carried to the community by Under Secretary Lodwick and me, by Secretaries Haig and Baldrige, Ambassador Brock and others in joint meetings and individual visits.

The message is simply that the United States will no longer tolerate the trade disruptions caused by unfair EC practices. We are willing and eager to work with the EC to solve trade issues, but if that fails we are prepared to defend our trading rights.

We were very pleased last summer when, after vigorous U.S. representations, the community laid aside, at least temporarily, its proposal to impose an internal tax on vegetable oils.

We are pleased, also, with the results of the historic first meeting in Brussels in December of Secretary Haig, Ambassador Brock and me with President Thorn, Agriculture Commissioner Dalsager and other high-level community officials.

During this very frank discussion, it was agreed that agricultural issues were the most difficult and would require priority efforts for resolution.

We met again in February when, as you know, members of the congress joined in expressing the U.S. resolve to protect our trading rights. Further discussion are tentatively set later this month.

We are backing up these talks with action. Last month, for the first time since the passage of the Trade Act of 1974, the U.S. brought a complaint against the EC before a panel of the General Agreement of Tariffs and Trade in response to a petition filed under Section 301 of the act for relief from unfair trade practices.

The complaint, filed more than six years ago, was made by the Miller's National Federation protesting EC subsidies on wheat flour. The panel convened Feb. 24 in Geneva and will hear further testimony

March 11. Similar petitions are in the GATT consultation process covering poultry, canned fruit and raisins, pasta products and sugar.

We also are actively pursuing a 301 petition filed by the U.S. citrus industry in an effort to settle a long-standing dispute over preferential EC tariffs on Mediterranean citrus products.

As you know our primary trade issue with Japan is market access and we are pushing the Japanese hard to liberalize imports of both agricultural and industrial products.

In Tokyo last October, I pressed for total removal of Japan's import quotas on beef and citrus products and for them to implement the agreement on U.S. leather imports and ease restrictions on a number of other agricultural products.

We continued this pressure in the ensuing months and a few weeks ago Japan announced a list of measures to ease nontariff barriers, including 36 that affect agricultural trade. This is a useful first step, but it does not go nearly far enough. The agricultural import quotas were not addressed and we will be making a major push for further liberalization in the months ahead.

The administration is working within the established rules to resolve the trade problems facing agriculture. The GATT system is far from perfect, but we plan to exhaust all its possibilities. It is the only mechanism standing between a rational system of world trade and the chaos of a trade free-for-all that would set us back 50 years.

As I suggested earlier, the need for intensified market development and trade policy efforts is even more urgent now because of the damage done by the embargo of 1980 and the large supply of U.S. farm commodities.

The lifting of the embargo of 1980 recognized the fact that the embargo of agricultural products is not likely to be successful, especially without total cooperation of other exporters around the world. This was amply demonstrated during the 15 months of the embargo on sales to the Soviet Union. As we have seen beginning with the soybean embargo in 1973, agricultural embargoes by the United States depress farm prices, close off markets and stimulate competition.

Further, they are costly to taxpayers, who paid a bill of almost $2 billion as a result of government actions to ease the impact of 1980

embargo. And budget exposure from increased stocks and the loss of trade continues.

Finally, embargoes damage the U.S. reputation, built carefully over decades, as a reliable supplier of agricultural products. The short term effect of the embargo of 1980 has been to put U.S. agriculture in the role of a residual supplier to the Soviet Union and we don't know if we can change this. We do know that almost 9 years after the soybean embargo of 1973 the U.S. share of world trade in soybeans and products has slipped from 85 percent to 72 percent.

This negative image has been of very deep concern in the U.S. Department of Agriculture. We have made supply assurance a principal objective on every occasion with customers and potential customers.

I have stressed this point in countless meetings—here and in foreign countries—with government officials and importers alike and the same message is delivered by members of my staff, by our sales teams, our agricultural attaches and counselors abroad, FAS marketing specialists and the USDA market development cooperators.

We have studied the provisions of the Agriculture and Food Act of 1981 that call for the development of embargo contingency plans. Our preliminary consideration has raised the question of whether it is possible to develop a structured plan—one in which we move from point A to point B and on down the line—that would be viable.

There appear to be too many variables—almost none of them predictable—that would bear on the situation. There are global weather, global supplies, prices, the embargo targets, the nature of the embargoed commodities, their importance to U.S. agriculture and its supporting industries, quantities already in the export pipeline and other uncertain factors.

I believe the department would be able to move quickly in keeping with the requirements of the Agriculture and Food Act to protect farm income and minimize disruption in the event such action became necessary.

At this point, I do not think it wise to rush into any plan that would lock us into a course of action that might not be appropriate to the circumstances if the plan were needed. And let me emphasize this: I am convinced that such a situation is highly unlikely.

I will close, Mr. Chairman, by saying that we are bullish on the prospects for the future of U.S. agricultural export growth. World demand for food is rising and it is rising fastest in the markets we have targeted for the most intensive market development attention. Barring global disaster, this demand will continue to rise.

Our efforts to get a full share of this demand for U.S. agriculture are directed particularly at export expansion in this difficult year, but they are based on the long-term objective of sustainable growth on which the well-being of U.S. agriculture will depend.

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Statement by Assistant Secretary for Economics William G. Lesher before the Senate Committee on Agriculture, Nutrition and Forestry, Subcommittee on Agricultural Research and General Legislation, March 10, 1982

Mr. Chairman and Members of the Committee, I am very pleased to appear before this Committee today to discuss the importance of futures trading to agriculture, to support generally the reauthorization of the Commodity Futures Trading Commission and specifically to support lifting the ban on trading in options on farm commodities.

Futures markets provide forward pricing and hedging mechanisms that greatly facilitate the efficient marketing of farm products. The prices generated on futures markets are widely used as indicators of value and as guides for production and storage decisions by farmers and other businessmen. And the shifting of risk provided by active forward markets greatly aids the mobilization of capital in production and marketing. But futures trading is subject to various abuses.

But futures trading is subject to various abuses. Experience has shown that effective regulation at the Federal level is needed to protect producers and other traders. The U.S. Department of Agriculture strongly supports the reauthorization of the CFTC to provide this protection.

I would like now to explain why we feel the prudent introduction of options trading for farm commodities could benefit farmers, others in agriculture and the general public. After a brief overview of options

trading, popularly known as "puts" and "calls" trading, I shall identify some of the issues involved. The reasons options trading was banned in 1936 will be reviewed and the differences between past options trading and what is envisioned will be described. The relation between options trading and price supports, the possible benefits to farmers from options trading by marketing firms and the potential problems with options trading will also be discussed.

Overview

Farmers, especially small and medium size operators, might benefit substantially from well-functioning commodity options markets for crops and livestock. Options trading could increase efficiency in agriculture by facilitating more effective risk transfer. While it may take some time before viable agricultural options markets develop because certain issues will have to be addressed and resolved, no progress can take place until the ban is lifted.

The main reason for banning options trading in 1936 was to stop abusive practices. While abuses did occur in the past, it seems that the ability of both the commodity exchanges and the CFTC are adequate to ensure that similar abuses would not occur today. The potential problems of options trading do not appear to be insurmountable and only could be solved after the ban is lifted—but before trading is allowed. In view of the potential usefulness of options trading to agriculture, yet great uncertainty over how far this potential could be realized, the U.S. Department of Agriculture recommends the removal of the 1936 ban on agricultural options trading, subject to the understanding that such trading would not start until after the CFTC and the commodity exchanges have completed their pilot program with options trading of other commodities, evaluated its feasibility and developed procedures that are essential for effective control of trading abuses.

The Issue

In the face of fluctuating farm prices, farmers have a difficult time deciding what to produce and when to sell. Larger operators usually are better positioned to use futures (either directly or indirectly) to plan production and to price their products before harvest. Being larger, they

can spread trading costs over greater volume. More importantly, they can better master the intricacies of futures trading such as avoiding undue losses attending crop failure, shifting hedges among delivery months, arranging adequate margin funds, borrowing against hedged positions and so on. Smaller operators often feel confined to accept the price at the time the crops or livestock are ready for market, whatever the price happens to be.

Local dealers might offer smaller farmers cash contracts and, thus, avoid the need for the farmers to deal in futures. However, the dealer's margin may be too wide to be acceptable. Also, there is a risk the dealer would not live up to his contract. More importantly, many farmers would like to profit from price increases. In this setting, a well-functioning agricultural commodity options market could improve the farmer's chances of getting better prices without, at the same time, binding the farmer to delivery of the commodity. The latter condition is particularly important when farm output is uncertain.

Thus, with options trading the farmer could buy the right to sell ("put") specified amounts of a given commodity to a second party at a stated price ("striking price") for which right he or she pays a sum of money ("premium"). But he or she need not exercise that right (all or in part) if the market price rises, or if yields are short, or both. When output risk is absent, or in its presence when combined with yield insurance, put options could protect farmers from much of the downside price risk in crop and livestock production.

The past year provides a dramatic example of the potential gains from options trading. For example, the price of corn to north central Indiana farmers for harvest-time delivery declined from \$3.39 per bushel in April to \$2.36 per bushel in November—or about a dollar a bushel. Options trading would have allowed farmers to protect themselves from this decline. They would pay others some fraction of a dollar for the privilege of selling them the corn at harvest for a specified price—\$3.25 per bushel, for example.

The purchase of a call option is similar but it would be used by farmers and others who wish to assure themselves of a maximum price they would have to pay for commodities they plan to use—for example, in feeding livestock, exporting grain and so on.

Farmer protection from price declines through purchase of put options might have been accomplished by selling futures contracts instead. Certain strategies in using futures are available—like selling only part of the expected crop forward at planting time, or the use of "stop-loss" futures purchase orders—but none of these measures assures the same straight-forward results as the farmer's purchase of a put option for his entire crop. Moreover, the great majority of farmers are not of sufficient size, or sophistication in the ways of futures trading, to avoid pitfalls. With the purchase of an option, a farmer would know what the total cost of his risk protection would be ahead of time and would not be subject to any margin calls.

In general, options might be traded in the underlying commodity or in futures contracts which call for delivery of the underlying commodity. There is little need to distinguish between the two in discussing the general economic role for agricultural producers. But it should be recognized that active options trading in the underlying commodity presupposes two conditions that are also required for futures trading, namely, low transaction costs and high contract integrity. Low transaction costs require trading in a competitive market and extreme standardization of contract terms, such as standard location, grade, quantity, exercise date and the striking price or the premium. High contract integrity requires an uncompromised system of performance guarantees. Thus, it appears reasonable either to base options trading on commodity futures contracts or on commodities similarly standardized and place such trading on the commodity exchanges.

Whether many farmers would actually hedge their market risks in commodity options would depend on the premium that would be charged by options grantors for a given level of downside price protection—a matter that only experience would determine. But options trading in the major farm commodities—grains, oilseeds, livestock, cotton, potatoes, among others—has been prohibited by Federal law since 1936. Therefore, one cannot develop any realistic opportunities for farmers without lifting the 1936 ban.

The 1936 Ban On Trading

In 1936, after many decades of controversy, trading in options was outlawed for commodities regulated under the Commodity Exchange Act—notably the grains and cotton, among others. This ban ended options trading that had flourished on commodity exchanges since 1926, at which time the Supreme Court invalidated a prohibitive tax of 20 cents that had been levied in 1921 on every bushel of grain involved in puts and calls trading.

The 1936 Act did not ban options trading in unregulated commodity futures, such as for coffee, sugar, cocoa, gold and silver. Nor did it ban trade in dealer options or foreign options. Subsequently, the 1974 act gave the CFTC exclusive jurisdiction over all commodity options and authorized the CFTC to determine whether and how such trading should be permitted. The spread of unsound and fraudulent practices in selling London and dealer options, and the difficulty the CFTC experienced in controlling these practices, caused the agency to suspend such off-exchange trading in 1978. However, the CFTC has recently announced a pilot program in options trading in a few selected commodities, not specifically banned by legislation, to take place under the rules and regulations of the commodity exchanges.

There are three main reasons why a ban on trading in agricultural commodity options was placed into effect in 1936:

1. There was a residue of strong 19th century attitudes, carried over into the 20th century. Futures trading had been under attack for many years as a form of gambling, because most futures contracts were offset and physical delivery of the commodity was not required. The defense against the gambling charge is that all futures contracts require physical delivery if either party should wish it. But this defense could not be made for trading in puts and calls (which were periodically traded beginning in the 1860's) because the essence of such contracts is that delivery is optional with the buyer. Thus, the defense of options trading against gambling laws was always on weak legal grounds. For example, in a 1922 decision in respect to the 1921 Futures Trading Act, the Supreme Court described puts and calls as transactions "which approximate gambling or offer full opportunity for it."

Since then, attitudes and legal interpretations have changed to the point that in December 1981 and February 1982 futures contracts were approved by the CFTC requiring cash settlements instead of physical delivery after trading has stopped. This is a complete reversal of the age-old concept of futures as a binding delivery instrument.

2. Trading puts and calls had been used by some traders for manipulative or fraudulent purposes—enticing people of limited means as option buyers, to their later regret. Characteristically, options trading (variously called privileges, indemnities, bids, offers, puts, calls, advance guarantees and decline guarantees) was listed in the 1936 act immediately after wash sales, cross trades and accommodation trades as prohibited practices. The question here is whether these problems would become unmanageable under modern regulatory procedures.

3. There was an expressed view that trading in options needlessly accentuated price movements in the commodity. For example, in 1933 trading in puts and calls was suspended by exchange action after the price collapse of July 19-20. Representatives of the grain exchanges stated that the elimination of such trading "removed one of the prime causes of excessive price movements." And they pledged to try to keep the elimination permanent.

   Apart from manipulative influences alluded to above, there is no clear reason to believe that trading in commodity options would have more of an adverse rather than a beneficial effect on commodity prices. This is the same observation that can be made about the effect of futures trading on cash commodity prices. Most studies, to date, do not point to net adverse effects.

Basic Difference Between Past Options Trading And What Is Envisioned

The agricultural options that were traded before the 1936 ban were essentially-short-term mainly one-day, two-day or one-week options (then called "privileges").

These options mainly interested professional speculators, traders—not merchandising firms nor, least of all, farmers. The premium was fixed and the striking price varied by bargaining.

The options trading now envisioned would cover significant periods from the standpoint of farm production, for example, 2, 4 and 6 months. And the pit bargaining might well be focused on the premiums for a given striking price, which is similar to stock options.

Second, the agricultural options traded before 1936 were mainly confined to grains and cotton where futures trading was very active. Now options trading appears applicable to more products—in particular, it appears especially suited to cattle, hogs and potatoes, among others.

Finally, the agricultural options trading before 1936 was, at various times, conducted on and off the exchanges. Even when conducted on the exchanges, there were not always clearing-house guarantees of performance, as now envisioned for an effective market in agricultural options.

Relation of Options Trading To Price Supports

For an individual farmer, the purchase of a put option has some similarities to entering into a price support agreement with the CCC, except the farmer rather than the taxpayer would bear the cost of reducing the exposure to a significant price decline. Options trading would not be as attractive to most farmers as price supports, assuming other conditions were equal—the support price equals the striking price, no restrictions on plantings or other factors.

Because price supports and commodity options generally serve the same purpose for an individual producer, the farmer's use of options would largely depend on how close support prices were relative to market prices. The same thing is true of the use of futures contracts, as the history of cotton and grain markets indicates. Thus, the rise of options trading depends on government policies. Since price supports are normally below market-clearing levels to avoid interfering with our share of international trade, many farmers—especially those who are young or highly leveraged or both—may desire to reduce their risk at a price much higher than the price support level. This is especially true since agricultural markets have become much more variable in recent years.

Unlike agricultural options, however, the price support program provides a floor, nationally, for certain farm commodities. In addition, an options market could function efficiently for farm products other than storables, such as livestock. The main requirement is fungibility and unmonopolized supplies—the same conditions required for successful futures trading.

Indirect Benefits To Farmers Of Option Trading By Merchants And Processors

Without options, the grain exporter who is searching to make deals abroad is exposed to an unanticipated rise or decline in domestic grain prices, while negotiating a price with importers. In view of such hazards, the preferred course of action is to acquire grain inventories, or commitments to buy grain, and hedge them in futures, followed by an offer to sell grain to importers on "basis on or off futures."

The success of this method depends on having a well-functioning futures market—sufficiently liquid for consummating large export deals without moving price appreciably against oneself. Some evidence suggests that grain futures markets have not always been adequate in this respect *(see Heifner, et. al., A-Study of Relationships Between Large Export Sales and Futures Trading, 1979.)*

With current high interest rates, much of the speculative interest in grain futures has moved to other investments, and the situation may have worsened. Hence, an options market might offer a means of meeting the grain exporters' needs, assuming it can develop the necessary liquidity.

The exporter could estimate more accurately the costs of acquiring the grain for export without being firmly committed to an uncovered long position in grain (or in grain futures). Thus, for example, the exporter could buy a 30-day call on the quantity of grain that it thinks it can sell abroad at a stated price. For this right, it pays the opposite party a sum of money, whether or not it exercises the call. The cost of the grain to the exporter then would be the stated price of grain plus the cost of the option. Having established such a position, the exporter presumably would be better able to determine a minimum offer price to grain importers, taking into account estimated transportation costs and other factors.

Farmers would benefit indirectly if there were improved trading opportunities for exporters who then could (1) increase the volume of grain exports and (2) lower the margin that exporters now figure that they need to have to meet uncertain grain acquisition costs.

Potential Problems

Although we feel there is a potential for agricultural options, there are also some potential problems which can be briefly stated.

1. It is unclear whether options trading would compete with or complement futures trading. To the extent there is, at any one time, a limited speculative fund for agricultural products, the addition of another means to speculate could grow only at the expense of existing means. This might disadvantage existing futures trading and be of no service to farmers or middlemen on whom farmers depend for marketing their produce.

   One possible disadvantage of options trading is that the number of contracts needed are several times the number of futures contracts required to serve the same market. This would occur because a separate option contract is required for each different striking price. It means either that more speculators are required to provide liquidity or some options would be very lightly traded. However, active trading could cluster around certain striking prices.

   However, in the longer run, new financial instruments tend to broaden their own markets by developing classes of specialized intermediaries who use the different instruments—each according to its own best employment—and may take spread positions between the two instruments. Indeed, the business of granting options would grow only as grantors found ways of limiting their loss exposure, which probably means covering net option positions in futures when commodity prices move against them. Thus, a healthy options market probably depends on a healthy futures market. To the extent futures trading and options trading serve different purposes, it would require prolonged market

testing to judge the degree to which their growth is interdependent.

2. A possible disadvantage of put options would be a higher cost than most farmers are willing to pay. In the grain futures market, exporters and processors, through their long hedging, balance some of farmers' short hedging, thereby keeping risk premiums small. But in an options market, farmers would buy puts from speculators while exporters and processors would buy calls from other speculators. Substantial risk premiums might result. In effect, farmers might be paying too much for a price floor and, thus, not use options. However, to the extent option dealers cover their net positions in futures markets, the speculative positions in futures might shoulder much of the risk. In addition, commercial traders may also buy and sell options. Only experience would tell.

3. Option trading might cause some large traders to increase their open positions in a commodity via purchase of options and thus add to the problem of countering squeezes in futures contracts deliverable on options. This potential problem would be true whether the options called for delivery of futures or of the underlying commodity. However, squeeze potentials might not be increased significantly if the options were exercisable somewhat before futures contracts come due.

   Another safeguard against increasing squeeze potentials through options trading is to place limits on the positions in futures and options combined (for example, combine the rights to "call" with long futures; combine the rights to "put" with short futures). In addition, speculative limits could be used.

Retrospect On Evolving Market Arrangements

History teaches that market arrangements are not perfected overnight. Rather, they evolve from pre-existing arrangements as fundamental conditions change, forcing the abandonment of some methods and engendering the coming of others.

Indeed, the history of the economic development of western civilization over many centuries is, in a real sense, a history of the rise of markets and their progressive adaptation to change. In essence, the rise of markets depends on discovering better ways to define rights in property; establish their negotiability through changes in attitudes, custom and law; and provide specialized services and rules governing the exchange of claims, in line with needs and preference of more and more people.

The development of agricultural options trading should be judged in this context. For such trading to serve business needs efficiently and with integrity, experimentation is required. In a sense, organized futures trading itself has been going through a long experimental process to this day. We sometimes take for granted the current futures trading procedures as if they were always there—for example, the daily cancellation of offsetting contracts, use of delivery notices, substitute delivery, the modern clearing house corporation and so on. But each of these arrangements was a long time in coming. The machinery for futures trading is still evolving, as we now see with the recent adoption of cash settlements in lieu of delivery for some contracts.

The time seems ripe to start the process of searching for suitable arrangements to promote agricultural options trading in view of the highly unstable market conditions that agriculture faces and must somehow adjust to.

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News Releases

U.S. Department of Agriculture • Office of Governmental and Public Affairs

USDA PROPOSES PEANUT POUNDAGE QUOTA REGULATIONS FOR THE 1982 CROP

WASHINGTON, March 5—The U.S. Department of Agriculture has proposed regulations for reducing state and farm peanut poundage quotas—as required under the 1981 farm act—and has requested public comment on the proposals.

The deadline for receiving comments is March 23.

Under the proposals, each state would receive the same pro rata share of the 1.2 million-short-ton 1982 national poundage quota it had of the 1981 quota, according to Everett Rank, administrator of USDA's Agricultural Stabilization and Conservation Service.

USDA would then establish a preliminary poundage quota for each farm that had an allotment in 1981, Rank said. Current law requires individual farm quotas be reduced based on the farm's production characteristics during the 1979-81 crop base period.

"We propose to divide peanut farms into three priority categories," Rank said. "After the division, USDA will reduce individual poundage quotas based on the priorities.

"Category 1 would include farms with inadequate tillable cropland to produce the poundage quotas; category 2, farms on which the quotas were not fully produced in at least 2 of the last 3 years; and category 3, would include quotas on all other farms."

Under law, any peanuts produced on a farm without a poundage quota or in excess of the farm poundage quota will be classified as additional peanuts and must be contracted for export or crushing by April 15, or placed in the price support loan pool for additional peanuts.

Rank said USDA will determine cumulative undermarketings for each farm, including undermarketings not used in 1980 and 1981. Under the proposal, these undermarketings could be carried over on a farm until used or until the 1981 farm act expires after the 1985 crop.

Undermarketings would be subject to a national carryover limitation of 10 percent of the national poundage quota, Rank said.

Under the proposal, farmers would be permitted to transfer their quotas—by lease or sale—within their county, Rank said. In addition,

farmers would be permitted to transfer their quotas to other farms they own or control, either within the county or to a farm in an adjoining county within the state, providing the receiving farm had a quota in 1981.

Rank said farmers would be permitted to transfer their quotas to other farms they own or operate in nonadjoining counties in eight states: Arizona, Arkansas, California, Louisiana, Mississippi, Missiouri, New Mexico and Tennessee.

All transfers would be on a pound-for-pound basis with no productivity adjustments, Rank said.

Rules for identifying marketings, assessing marketing penalties and handling violations will be issued later, Rank said.

Further details of USDA's peanut program proposal appear in the March 8 Federal Register.

Written comments should be addressed to the director, tobacco and peanuts division, ASCS-USDA, P.O. Box 2415, Washington, D.C. 20013. Comments will be available for public inspection during regular business hours in room 5750 of USDA's South building.

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USDA ESTABLISHES STUDY COMMITTEE ON PREMIUMS AND DISCOUNTS FOR UPLAND COTTON

WASHINGTON, March 5—Secretary of Agriculture John R. Block today established a special committee and appointed 10 members and their alternates to study premiums and discounts under USDA's upland cotton loan program.

The committee is required under the Agriculture and Food Act of 1981.

Block said the committee will study alternative methods of establishing values of premiums and discounts for grade, staple and micronaire for the upland cotton loan program that will accurately represent true relative market values and reflect actual demand for U.S. upland cotton.

The committee will submit the results of its study and its recommendations to Block in time to permit any new procedures to be implemented for the 1982 crop, he said.

Under Secretary of Agriculture Seeley Lodwick will serve as chairman; Everett Rank, administrator of USDA's Agricultural Stabilization and Conservation Service, will be vice-chairman. The members and their alternates represent producers, merchants and textile manufacturers.

The committee will meet here at 9 a.m. March 23 and 24 and April 6 and 7 in room 4960 of USDA's South building. The meetings will be open to the public, but space and facilities are limited. Public participation will be limited to written statements submitted before the meeting unless otherwise requested by the chairman.

Written statements should be sent to: Charles V. Cunningham, acting deputy director, analysis division, ASCS, room 3741-S, P.O. Box 2415, Washington, D.C., 20013.

Producer representatives and their alternates are:

SOUTHEAST: James Sanford, Prattville, Ala., and Wesley Wannamaker, St. Matthews, S.C., members; Robert A. Tucker, Dahlonega, Ga., and W.L. Carter, Jr., Scotland Neck, N.C., alternates.

MIDSOUTH: William H. Houston Tunica, Miss., and Dan Logan, Gilliam, La., members; Tommy Willis, Brownsville, Tenn., and H.W. Droke, Hornersville, Mo., alternate.

SOUTHWEST: Lloyd Cline, Lamesa, Texas, and L.C. Unfred, Tahoka, Texas, members; Jack Myers, Snyder, Okla., and A.D. May, Rule, Texas, alternates.

WEST: Jack Stone, Stratford, Calif., and C.L. Scott, Casa Grande, Ariz., members; M. Kent Hafen, Pahrump, Nev., and Rosco Fletcher, Dexter, N.M., alternates.

MERCHANT REPRESENTATIVES: Dewell Gandy, Memphis, Tenn., member; Peter Hirschfeld, Dallas, Texas, alternate.

TEXTILE MANUFACTURER REPRESENTATIVES: James Fry, Gastonia, N.C., member; Robert H. Chapman, Jr., Inman, S.C., alternate.

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U.S.-WEST GERMANY TO EXCHANGE AGRICULTURAL SCIENTIFIC AND TECHNICAL TEAMS

WASHINGTON, March 5—The United States and West Germany today agreed to exchange scientific information and research in several agricultural areas this year including animal viral diseases and the resistance of some plants to disease as well as the actual exchange of plant germplasm.

The agreement, which came following a week of discussions by a U.S.-West German working group here, gives specific areas to be covered under the more general Agreement on Cooperation in Agricultural Science and Technology signed last June.

The five-member West German delegation was headed by Gunther Wegge, Deputy Administrator for Planning and Coordination, Federal Ministry of Food, Agriculture and Forestry. The U.S. delegation was led by Joan Wallace, Administrator for the U.S. Department of Agriculture's Office of International Cooperation and Development.

Wallace said other cooperative activity this year is planned to include discussions on mycotoxins in feed and food, storage protection and fumigation of bulk foods, the examination of the causes of degeneration of cattle embryos in early development stages, and the conversion technology of basic plant and forest products into gasohol

While in the United States, the West Germans visited the Beltsville, Md., Agricultural Center, the National Agricultural Library, dairy farms, and a biogas-methane on-farm plant in Maryland to observe the application of this technology at the farm level.

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USDA ANNOUNCES CONSERVATION PROGRAM TARGETED TO PROBLEM AREAS

WASHINGTON, March 10—To help meet critical soil erosion and water conservation problems, the U.S. Department of Agriculture will provide $9 million during fiscal 1982 in "targeted" agricultural conservation program funds in 15 states, according to Secretary of Agriculture John R. Block.

Block said the new concept will allow federal, state and local governments and farmers themselves to attack the most critical problems, while maintaining conservation practices already established on other lands.

The agricultural conservation program, administered by USDA's Agricultural Stabilization and Conservation Service, is a joint effort by government and other groups to restore and protect basic land and water resources and the environment.

Block said USDA's Soil Conservation Service also has targeted funds to attack the same problems in the same geographic areas. SCS also will provide additional technical assistance, he said.

"With both ASCS and SCS working together on these problems, we will be bringing all the conservation resources and expertise in the department to bear where the need is greatest and we can get the most for our money," Block said.

In granting funds for the program, USDA will emphasize those measures that provide cost-effective solutions to resource problems and will encourage conservation tillage methods to reduce excessive erosion. In addition, Block said, the department will concentrate on reducing flood damage where annual losses are high and solutions are not too costly.

Block said both water conservation and erosion control measures will emphasize long term agreements covering a period of from 3 to 5 years.

Of the $9 million announced today, $6.5 million is allocated for erosion control in 126 counties; $2.5 million is for water conservation in 73 counties.

The total national budget for the fiscal 1982 agricultural conservation program is $190 million, of which the $9 million is part. These funds are allocated to individual states, after which state ASCS offices determine the amount that can be used in each county.

Following is a list of states and counties approved for the targeted conservation funds:

Critical Erosion Target Areas

ALABAMA (16 counties; $760,000):Baldwin, Barbour, Butler, Coffee, Coneguh, Covington, Crenshaw, Dale, Escambia, Geeneva, Henry, Houston, Mobile, Monroe, Pike and Russell.

GEORGIA (22 counties; $790,000):Bleckley, Bulloch, Burke, Candler, Dodge, Emanuel, Evans, Jefferson, Jenkins, Johnson, Laurens, Montgomery, Richmond, Screven, Tattnall, Telfair, Toombs, Treutlen, Twiggs, Washington, Wheeler and Wilkinson.

IDAHO (8 counties; $260,000):Benewah, Clearwater, Idaho, Kootenai, Latah, Lewis, Nez Perce and Shoshone.

IOWA (16 counties; $945,000):Adams, Audubon, Carroll, Cass, Crawford, Fremont, Ida, Harrison, Mills, Monona, Montgomery, Page, Pottawattamie, Shelby, Taylor and Woodbury.

KENTUCKY (8 counties; $420,000):Ballard, Calloway, Carlisle, Fulton, Graves, Hickman, Marshall and McCracken.

MISSISSIPPI (8 counties; $340,000):Alcorn, Benton, Desota, Lee, Marshall, Panola, Prentiss and Tate.

MISSOURI (9 counties; $530,000):Caldwell, Daviess, Grundy, Harrison, Linn, Livingston, Mercer, Putnam and Sullivan.

OREGON (5 counties; $510,000):Gilliam, Morrow, Sherman, Umatilla and Wasco.

TENNESSEE (21 counties; $990,000):Benton, Carroll, Chester, Crockett, Decatur, Dyer, Fayette, Gibson, Hardeman, Hardin, Haywood, Henderson, Henry,

WASHINGTON (13 counties; $955,000):Adams, Asotin, Benton, Columbia, Douglas, Franklin, Garfield, Grant, Klickitat, Lincoln, Spokane, Walla Walla and Whitman.

Critical Water Short Targeted Areas

COLORADO (6 counties; $225,000):Bent, Crowley, Fremont, Otero, Prowers and Pueblo.

IDAHO (19 counties; $750,000):Ada, Bingham, Bonneville, Canyon, Cassia, Elmore, Fremont, Gem, Gooding, Jefferson, Jerome, Lincoln, Madison, Minidoka, Owyhee, Payette, Power, Twin Falls and Washington.

MONTANA (17 counties; $475,000):Beaverhead, Cascade, Custer, Dawson, Gallatin, Lake, Phillips, Prairie, Pondera, Powell, Ravalli, Richland, Rosebud, Teton, Treasure, Valley and Yellowstone.

NEVADA (7 counties; $325,000):Churchill, Clark, Eureka, Lander, Lyon, Nye and Washoe.

OREGON (4 counties; $75,000):Jackson, Klamath, Morrow, Umatilla.

UTAH (6 counties; $250,000):Beaver, Iron, Millard, Sanpete, Sevier and Washington.

WYOMING (14 counties; $400,000):Big Horn, Carbon, Converse, Fremont, Goshen, Hot Springs, Johnson, Lincoln, Natrona, Park, Platte, Sheridan, Uinta and Washakie.

1982 ACP TARGETING EFFORT
STATE ALLOCATIONS

Erosion Control:		Water Conservation:	
Alabama	$760,000	Colorado	$225,000
Georgia	790,000	Idaho	750,000
Idaho	260,000	Montana	475,000
Iowa	945,000	Nevada	325,000
Kentucky	420,000	Oregon	75,000
Mississippi	340,000	Utah	250,000
Missouri	530,000	Wyoming	400,000
Oregon	510,000		
Tennessee	990,000	TOTAL	$2,500,000
Washington	955,000		
TOTAL	$6,500,000		

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USDA EXTENDS LOAN MATURITY DATE ON 1981-CROP RICE FROM APRIL 30 UNTIL JUNE 30

WASHINGTON, March 10—Rice producers whose government price support loans are due April 30 may, at their option, extend these loans until June 30, according to Secretary of Agriculture John R. Block.

Currently, there are about 29 million hundredweight of rice under government loan. All rice loans were scheduled to mature April 30, Block said.

He said this action to extend loans will provide producers an opportunity to delay their decision of whether to repay or forfeit their loans.

Current rice market prices are depressed because of the record 1981 crop, Block said. The decision to allow farmers more time to repay their loans will allow them to watch market prices and is consistent with USDA's move towards a more market-oriented farm policy, Block said.

Producers who wish to extend their loans should contact the county office of USDA's Agricultural Stabilization and Conservation Service where they made the original loan.

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FIRST ACREAGE REDUCTION SIGNUP REPORT SHOWS 11.2 MILLION ACRES ENROLLED

WASHINGTON, March 10—Farmers who signed up Feb. 16 through March 4 for the 1982 feed grains, rice, upland cotton and wheat programs have enrolled 11.2 million acres of base acreage.

Secretary of Agriculture John R. Block said the base acreage enrolled includes 5.2 million under the feed grain program, 500,000 under the rice program, 1 million under the upland cotton program and 4.5 million under the wheat program.

Block also said reports from USDA field offices indicate producer interest in the reduced acreage program is picking up.

Farmers who sign up to participate in the acreage reduction programs for upland cotton, rice and wheat agree to reduce their base acreage of these commodities by at least 15 percent while feed grain

producers will voluntarily reduce their base acreage by 10 percent. The acreage taken out of production must be devoted to a conservation use.

Only program participants are eligible for price support loans and target price protection. Farmers signing up for the feed grains and wheat programs are eligible also for the farmer-owned grain reserve.

"I strongly urge all farmers to sign up for the reduced acreage program," Block said. "The safety net USDA provides to program participants in terms of loans, deficiency payments and eligibility for the grain reserve will not be extended to nonparticipants at some later date," he said.

The 1982-crop national average loan rates are: barley, $2.08 per bushel; corn, $2.55 per bushel; oats, $1.31 per bushel; sorghum, $2.42 per bushel; wheat, $3.55 per bushel; rice, $8.14 per hundredweight; upland cotton, $0.5708 per pound.

Reserve loan rates are: barley $2.37 per bushel; corn, $2.90 per bushel; oats, $1.49 per bushel; sorghum, $2.75 per bushel; wheat, $4 per bushel.

Target prices for the 1982 crops are: barley, $2.60; corn, $2.70; oats, $1.50; sorghum, $2.60; wheat, $4.05; rice, $10.85; upland cotton, $0.71.

Signup continues through April 16.

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USDA'S STATISTICAL REPORTING SERVICE CHANGES CROP, LIVESTOCK ESTIMATING PROGRAM

WASHINGTON, March 10—Effective immediately, the U.S. Department of Agriculture's Statistical Reporting Service will eliminate, cut back or otherwise alter selected portions of its crop and livestock estimating programs, according to SRS Administrator William E. Kibler.

Kibler said the changes are necessary to stay within fiscal 1982 funding levels.

He said the changes follow an extensive, critical review of the entire estimating program. "We believe we will be able to redirect available resources toward maintaining timely and reliable data series judged to be the most important in monitoring changes in the agricultural sector.

We feel we explored all possible avenues to minimize the impact on the total agricultural community," Kibler said.

He said USDA will work with commodity groups, local organizations and state agencies to reestablish programs being eliminated or curtailed if funds for data collection, summarization and publication can be provided by these groups. SRS will continue to publish over 300 reports annually, Kibler said.

The following 26 reports will be eliminated:

— Alfalfa Seed (annual forecasts of acreage, yield and production);

— Butter and American Cheese Production (weekly reports issued by the SRS office in Madison, Wis.);

— Catfish (monthly reports of catfish processed and the semi-annual reports of producer inventories, sales and value);

— Commerical Apples by Varieties (annual estimate of production);

— Commercial Fertilizers (monthly reports of consumption, and the annual report of consumption by class);

— Field Crops: Production, Disposition and Value (annual release presenting the previous year's data);

— Field Seed Stocks (annual estimate of stocks held by dealers);

— Floriculture Crops (annual report of production and sales and intentions);

— Gum Naval Stores (monthly reports of production);

— Honey (annual estimates of the number of colonies; honey and beeswax production, prices, and value; and honey stocks);

— Lamb Crop and Wool (annual estimate of next lamb crop, sheep shorn and wool production issued in July);

— Maple Sirup (annual estimates of production, price, value and disposition);

— Mink (annual estimates of mink pelts produced, females bred, prices and value);

— Onion Stocks (annual report of stocks of dry onions);

— Producer-Owned Grain Stocks (annual estimates of wheat and soybean stocks off farms owned by producers);

— Popcorn (semi-annual reports of acreage, yield, production and prices);

— Red Clover Seed (annual forecast of acreage for harvest, yield and production);

— Seed Crops (both preliminary and annual summaries of acreage, production, yield, price and value of 14 field seeds);

— Sheep and Lambs on Feed (three reports estimating number on feed in seven major states, including the March estimate of the early lamb crop in three states);

— Sugar Distribution (weekly report of distribution and stocks);

— Sugar Market Statistics (monthly report of deliveries, inventories production and prices);

— Tall Fescue (Oregon and Southern States) (annual forecast of acreage, yield and production);

— Timothy (annual report of acreage, yield, and production);

— Trout (annual report of producer sales and value);

— Vegetable Seeds (annual forecast of acreage and production prospects); and

— Vegetable Seed Stocks (annual summary of stocks held by dealers).

The following data series will be eliminated from ongoing reports:

— separate utilization estimates of table and hatching eggs; pullorum-typhoid testings for broiler-type chicks, egg-type chicks and turkeys from the monthly Eggs, Chickens, and Turkeys report;

— forecast of winter wheat yield and production for the following year from the December Small Grains report.

— forecasts of yield and production for current crops of corn, durum, and other spring wheat from the July Crop Production report;

— estimates of dry edible pea acreage, yield, production, disposition, and value from the Crop Production, Prospective Plantings and Acreage reports;

— estimates of blueberries and bushberries from the Crop Production and Noncitrus Fruits and Nuts reports;

— pickle stocks data from the November Vegetables report;

— estimates of seeded winter wheat available for grazing in Kansas, Texas and Oklahoma from the November and December Crop Production reports;

— data on dairy feed ingredients from the Milk Production report;

— prices of manufacturing grade milk for specified uses and milkfat test data from the Dairy Products reports; and

— acreage, yield, production, price and value estimates for these fresh market vegetables: artichokes, asparagus, snap beans, Brussels sprouts, cabbage, cantaloup, cucumbers, eggplant, escarole/endive, garlic, green peppers, watermelons, and spinach. Estimates will be discontinued for these processing vegetables: lima beans, beets, cabbage for kraut, cucumbers for pickles, spinach, and asparagus. All these estimates will be eliminated from the Vegetables reports.

SRS will reduce the number of state estimates included in these reports:

— Cattle (The July issue will carry inventory and expected calf crop estimates at the national level only and not by separate states.)

— Cattle on Feed (The quarterly reports will provide data of the number on feed, placements and marketings for only 13 principal states rather than 23.)

— Hogs and Pigs (The March and September estimates of inventory, pig crop and breeding intentions will be cut from 14 states to 10. The June estimates will be reduced from all major states to only 10 and a national estimate.

SRS will cut back on the frequency it issues the following reports:

— Cold Storage (From monthly to quarterly for end-of-month holdings in March, June, September and December.)

— Dairy Products (From monthly to quarterly for January-March, April-June, July-September and October-December.)

— Eggs, Chickens, and Turkeys (From monthly to quarterly for December-February, March-May, June-August and September-November for estimates of layer numbers and egg production. Estimates of chicks and poults hatched, eggs in incubators and pullet chicks for hatchery supply flocks will be issued monthly.)

— Livestock Slaughter (From monthly to quarterly for January-March, April-June, July-September and October-December.

— Milk Production (From monthly to reports in April, July, October and January covering the periods January-March, April-June, July-September and October-December.)

— Peanut Stocks and Processing (From monthly to reports only in February and August.)

SRS will reduce the frequency it estimates the following commodities:

— Cranberries will be dropped from the October and November Crop Production reports and estimated in August and January.

— Peppermint and spearmint for oil reported in the June, August and September Crop Production reports will be available only in the January release.

— Tobacco by seven classes and 21 types currently reported in the May, July, September, October, November, and December issues of Crop Production will be available only in the August and January reports.

For additional information concerning these program alterations, please contact: Don Barrowman, Director, SRS estimates division, (202) 447-3895; Robert Schulte, Chief, SRS crops branch, (202) 447-2127; or Robert Freie, Chief, SRS livestock branch, (202) 447-6146.

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USDA PROPOSES EXPANDING TESTING AT THE SLAUGHTER HOUSE TO SPEED INSPECTION

WASHINGTON, March 12—The U.S. Department of Agriculture today proposed expanding the use of a rapid test in slaughter houses to detect antibiotic residues in veal calves, beef cattle, sheep, swine, goats, horses, chickens, turkeys, ducks and geese.

The test has been used on slaughtered dairy cattle since 1979.

"By using STOP—the swab test on the premises—federal inspectors at the slaughter house can tell within 18 hours whether carcasses have traces of antibiotics," said Donald L. Houston, administrator of USDA's Food Safety and Inspection Service. "If the test shows no antibiotics, the carcass moves into commerce without delay."

Traditional laboratory testing, which is still used to confirm a positive finding with the swab test on the premises, takes one to two weeks to get results back to the inspector.

Since the program began three years ago, inspectors have been able to screen 10 times as many cattle as they could when only conventional laboratory tests were available, and at a reduced cost.

To perform the swab test, inspectors insert ordinary cotton swabs into the liver, kidney or muscle tissue of the slaughtered animal. The swabs are then put on a plate containing a nutritive gel streaked with harmless bacteria. After 18 hours in an incubator, any traces of antibiotics from the animal will inhibit bacterial growth around the swab tip and give a "positive" result.

In such cases, the inspector holds the carcass at the plant and sends samples to the laboratory for additional testing. If antibiotics are confirmed at levels above tolerance, the carcass cannot be used as food.

"Dairy farmers have been able to prevent such violations by careful attention to correct dosage and drug withdrawal periods prior to marketing animals," said Houston. "We at USDA will be working with producer groups to inform them of the proposed expansion of the STOP program and of ways to market safe and wholesome product."

Written comments on the proposal, which is scheduled to be published in the March 12 Federal Registier, may be submitted until May 12. The comments must be sent in duplicate to: Regulations Office, Attn: Annie Johnson, FSIS Hearing Clerk, rm. 2637-S, FSIS, USDA, Washington, D.C. 20250.

Persons wishing to submit oral comments about poultry products should contact John E. Spaulding, director, Residue Evaluation and Planning Division, Science Program, FSIS, USDA, Washington, D.C. 20250. Phone: (202) 447-2807.

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